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**BLACK PHOTO CORPORATION LIMITED    ANNUAL REPORT 1977**

# BLACK PHOTO CORPORATION LIMITED

## Financial Highlights

	1977	1976
Sales	\$23,359,172	\$20,913,497
Earnings before Extraordinary Item	1,208,508	1,058,972
Net Earnings	842,483	1,058,972
Working Capital	5,303,077	4,548,549
Total Assets	9,474,561	8,778,421
Shareholders' Equity	6,967,516	6,347,567
Earnings per Share : Before Extraordinary Item	\$ 1.12	99 ¢
Net Earnings	78 ¢	99 ¢
Shares Outstanding	1,078,000	1,074,600

### Directors and Officers

William E. Black  
*Chairman and President*

Robert F. Black  
*Director and Vice-President*

William J. Huntley  
*Director and Secretary-Treasurer*

George W. Copeland, Q.C.  
*Director*

Barry J. Black  
*Director*

Donald E. Boxer  
*Director*

Robert J. McMullen  
*Director*

Bruce H. Black  
*Director*

### Head Office

10 Dyas Road, Don Mills, Ontario

### Subsidiaries

Eddie Black's Limited  
10 Dyas Road, Don Mills, Ontario

Educational Film Distributors Limited  
285 Lesmill Road, Don Mills, Ontario

R & H Products Limited  
743 Renaud Avenue, Montreal-Dorval, Quebec

### Auditors

Messrs. Coopers & Lybrand  
145 King Street West, Toronto, Ontario

### Solicitors

Messrs. Miller, Thomson, Sedgewick, Lewis & Healy  
Toronto, Ontario

Messrs. Bjarnason & Copeland  
Toronto, Ontario

### Bankers

Canadian Imperial Bank of Commerce  
1865 Leslie Street, Don Mills, Ontario

### Transfer Agent

Canada Permanent Trust Company  
20 Eglinton Avenue West, Toronto, Ontario

### Stock Listing

BPK – The Toronto Stock Exchange

### Underwriter

Burns Fry Limited  
Toronto-Dominion Centre, Toronto, Ontario

## To Our Shareholders :

Your corporation again had a very successful fiscal year. Sales were in excess of 23 million dollars and earnings were 1.2 million dollars before extraordinary item. Net earnings were reduced to \$842,483 after a write-off of excess of cost of shares of subsidiaries over net book value at date of acquisition.

Our balance sheet position remains strong with working capital increased to \$5,303,077.

During the past year, dividends totalling 22¢ were paid on Class A shares and 18.7¢ were paid on the Class B shares out of tax paid undistributed surplus.

Our retail chain continued to grow with openings in the Manulife Centre, Towne & Counrye Centre and Cloverdale Mall. All three are in the Metro Toronto area. One store was closed in Dixie Plaza. In most cases individual store volume was sufficient to keep pace with the rising costs of their operation.

Our photofinishing plant showed good results with increased volume of orders handled. Considerable investment was made in plant equipment during the year in order to increase capacity and maintain efficiency. Our colour print processing has now been entirely converted to produce four inch prints. Initial consumer reaction has been very favourable and it is expected that the results of this change will be most beneficial in the future.

Our Audio Visual Division suffered from lack of sales. We withdrew completely from the marketing of video tape equipment and other related electronic products. It is hoped that with a conservative approach to conventional teaching aids we may at least break even in the coming year.

Educational Film Distributors Ltd. sales were down slightly and with reduced margins coupled with increased costs produced results which were less than satisfactory. A significant improvement cannot be foreseen at this time and it was therefore considered appropriate to write off the excess of cost of shares over net book value at date of acquisition.

R & H Products Limited had a satisfactory year, both in sales and profits. As previously announced, Fuji Photo Film Company Limited of Tokyo has agreed to purchase this subsidiary. Approval of the Foreign Investment Review Agency was initially refused. Fuji has indicated their intention to re-apply and it is expected that the transaction may be completed by the end of this year.

In summary, fiscal 1977 has seen the attainment of goals fundamental to the vitality of a strong, growing company. We foresee an increase in sales, particularly in our retail division. However, with the pressure of ever increasing costs, we do not anticipate earnings to increase at the same level.

The important contribution made by the personnel in our companies cannot be overstated. The talent of our management staff and the skills of our dedicated employees are important ingredients in the success of Black Photo.

William E. Black, President.



# BLACK PHOTO CORPORATION LIMITED

## Consolidated Balance Sheet

as at March 31, 1977

### ASSETS

	1977	1976
CURRENT ASSETS		
Cash and short-term deposits	\$1,537,163	\$ 744,511
Accounts receivable	1,367,542	1,618,537
Inventories	4,818,545	4,499,277
Prepaid expenses	24,002	49,460
	<u>7,747,252</u>	<u>6,911,785</u>
FIXED ASSETS (note 2)	<u>1,727,309</u>	<u>1,500,611</u>
EXCESS OF COST OF SHARES OF SUBSIDIARIES OVER NET BOOK VALUE AT DATE OF ACQUISITION (note 5)	—	366,025

### SIGNED ON BEHALF OF THE BOARD

William E. Black, Director

William J. Huntley, Director

\$9,474,561

\$8,778,421

## LIABILITIES

	1977	1976
CURRENT LIABILITIES		
Bank indebtedness	\$ 640,794	\$ 704,182
Accounts payable and accrued liabilities	1,790,574	1,558,082
Income taxes	12,807	100,972
	<u>2,444,175</u>	<u>2,363,236</u>
LONG-TERM DEBT – net of current portion (note 3)	62,870	67,618
	<u>2,507,045</u>	<u>2,430,854</u>

## SHAREHOLDERS' EQUITY

### SHARE CAPITAL (note 4)

Authorized –		
4,601,000 shares without par value		
Issued and fully paid –		
1,078,000 (1976 – 1,074,600) shares	1,377,831	1,365,591
Unpaid subscription	12,150	16,200

	<u>1,365,681</u>	<u>1,349,391</u>
RETAINED EARNINGS	5,601,835	4,998,176
	<u>6,967,516</u>	<u>6,347,567</u>
	<u>\$9,474,561</u>	<u>\$8,778,421</u>

## Consolidated Statement of Changes in Financial Position

for the year ended March 31, 1977

	1977	1976
SOURCE OF WORKING CAPITAL		
Net earnings for the year	\$ 842,483	\$1,058,972
Items not affecting working capital –		
Depreciation and amortization	353,514	280,540
Write-off of excess of cost of shares of subsidiaries over net book value at date of acquisition (note 5)	366,025	—
Provided from operations	1,562,022	1,339,512
Receipt of share subscription (note 4)	4,050	4,050
Issue of share capital (note 4)	12,240	10,800
	<u>1,578,312</u>	<u>1,354,362</u>
USE OF WORKING CAPITAL		
Tax paid on 1971 undistributed income	24,000	18,000
Dividends paid (note 6)	214,824	194,867
Additions to fixed assets (net)	580,212	450,827
Decrease in long-term debt	4,748	4,411
	<u>823,784</u>	<u>668,105</u>
INCREASE IN WORKING CAPITAL	754,528	686,257
WORKING CAPITAL – BEGINNING OF YEAR	<u>4,548,549</u>	<u>3,862,292</u>
WORKING CAPITAL – END OF YEAR	<u>\$5,303,077</u>	<u>\$4,548,549</u>

## Consolidated Statement of Earnings and Retained Earnings

for the year ended March 31, 1977

	1977	1976
NET SALES	<u>\$23,359,172</u>	<u>\$20,913,497</u>
EXPENSES		
Operating costs and other expenses	20,703,449	\$18,484,994
Depreciation and amortization	353,514	280,540
Interest –		
Long-term debt	5,145	5,460
Other	42,556	75,131
	<u>21,104,664</u>	<u>18,846,125</u>
	2,254,508	2,067,372
PROVISION FOR INCOME TAXES	<u>1,046,000</u>	<u>1,008,400</u>
EARNINGS BEFORE EXTRAORDINARY ITEM	<u>1,208,508</u>	<u>1,058,972</u>
EXTRAORDINARY ITEM		
Write-off of excess of cost of shares of subsidiaries over net book value at date of acquisition (note 5)	<u>366,025</u>	<u>—</u>
NET EARNINGS FOR THE YEAR	<u>842,483</u>	<u>1,058,972</u>
RETAINED EARNINGS – BEGINNING OF YEAR	<u>4,998,176</u>	<u>4,152,071</u>
	<u>5,840,659</u>	<u>5,211,043</u>
Dividends paid (notes 6 and 10)	214,824	194,867
Tax paid on 1971 undistributed income	24,000	18,000
	<u>238,824</u>	<u>212,867</u>
RETAINED EARNINGS – END OF YEAR	<u>\$ 5,601,835</u>	<u>\$ 4,998,176</u>
EARNINGS PER SHARE (note 7)		
Earnings before extraordinary item	<u>\$1.12</u>	<u>\$0.99</u>
Net earnings for the year	<u>\$0.78</u>	<u>\$0.99</u>



## Notes to Consolidated Financial Statements

for the year ended March 31, 1977

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed by the company and the disclosure of its financial information conform with generally accepted accounting principles. The following is a summary of the significant accounting policies followed in the preparation of these consolidated financial statements:

#### *Principles of consolidation*

These consolidated financial statements include the accounts of Black Photo Corporation Limited and its wholly-owned subsidiaries, Eddie Black's Limited, Educational Film Distributors Limited and R & H Products Limited.

#### *Inventories*

Inventories represent finished products purchased from suppliers. They are valued at cost as determined on a first-in, first-out basis which is, in the aggregate, lower than replacement cost and net realizable value.

#### *Fixed assets*

Fixed assets are recorded in the accounts at cost. Depreciation is determined on the declining balance method at rates of 5% for buildings, 20% for furniture, fixtures, machinery and equipment and 30% for motor vehicles. Leasehold improvements are amortized on a straight-line basis over the terms of the leases. Expenditures for maintenance and repairs are charged to earnings as incurred.

#### *Translation of foreign currencies*

Assets and liabilities in foreign currencies have been translated at rates approximating those prevailing at March 31, 1977. Income transactions have been translated into Canadian dollars at rates in effect on the dates of the transactions.

### 2. FIXED ASSETS

Fixed assets and related accumulated depreciation are classified as follows:

	1977		1976	
	Cost	Accumulated depreciation	Net	Net
Land	\$ 94,077	\$ —	\$ 94,077	\$ 94,077
Buildings	527,638	180,378	347,260	365,513
Furniture, fixtures, machinery and equipment	2,575,854	1,615,258	960,596	742,995
Motor vehicles	179,147	78,356	100,791	91,950
Leasehold improvements	501,284	276,699	224,585	206,076
	<u>\$3,878,000</u>	<u>\$2,150,691</u>	<u>\$1,727,309</u>	<u>\$1,500,611</u>

### 3. LONG-TERM DEBT

Long-term debt represents a 7½% mortgage loan due March 1987. Blended monthly payments of approximately \$800 are made under the terms of the mortgage to retire the debt.

### 4. SHARE CAPITAL

The number of authorized and issued shares at March 31 is as follows:

	1977		1976	
	Authorized	Issued	Authorized	Issued
Class A shares	1,622,300	400,300	1,641,100	415,700
Class B shares	2,977,700	677,700	2,958,900	658,900
Common shares	1,000	—	1,000	—
Total	<u>4,601,000</u>	<u>1,078,000</u>	<u>4,601,000</u>	<u>1,074,600</u>

During the year there was a net increase of 18,800 in the number of authorized and issued Class B shares (1976 — increase in Class A shares of 7,151) as a result of the exercise of the conversion rights.

The Class A and Class B shares are voting, convertible into one another on a share for share basis and rank equally with respect to dividends and in all other respects. The only distinction between the two classes is that the directors may specify that cash dividends on Class B shares be paid first out of 1971 tax-paid undistributed surplus on hand and then out of 1971 capital



surplus on hand (as those expressions are defined in the Income Tax Act of Canada). The receipt of such dividends by the Class B shareholders results in a reduction of the adjusted cost base of their shares with the effect that any gains realized on the disposal of the shares will be increased (or any losses reduced) for capital gains purposes.

During the year options for the purchase of 3,400 Class A shares by certain key employees, were exercised for a cash consideration of \$12,240. At March 31, 1977 there remained no options for the purchase of shares.

The unpaid subscription of \$12,150 (1976 – \$16,200) relates to shares issued under a former stock option plan and is payable in equal annual instalments of \$4,050 to August, 1979.

## 5. EXTRAORDINARY ITEM

During the year the directors reviewed the item of "excess of cost of shares of subsidiaries over net book value at date of acquisition" of \$366,025 previously shown as an asset on the consolidated balance sheet and decided that it should no longer be reflected as an asset. Accordingly, it has been written off against earnings in 1977 as an extraordinary item.

## 6. DIVIDENDS

The following dividends have been declared and paid during the years ended March 31 :

	1977		1976	
	Per Share	Total	Per Share	Total
Class A shares	22.0¢	\$ 88,238	20.0¢	\$ 82,935
Class B shares	18.7¢	126,586	17.0¢	111,932
		<u>\$214,824</u>		<u>\$194,867</u>

## 7. PRINCIPLES OF EARNINGS PER SHARE

Earnings per share are based upon the weighted average number of shares outstanding during the year.

## 8. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration of directors and senior officers as defined by The Business Corporations Act amounted to \$246,628 (1976 – \$225,230).

## 9. LEASE COMMITMENTS

The total amount of rentals paid during the year ended March 31, 1977 under leases (including additional rent payable as a percentage of sales) was \$549,712 (1976 – \$414,594).

Minimum annual commitments under non-cancellable leases with terms of more than one year approximate \$380,000 for 1978 and average \$313,000 per year through 1982 with decreasing amounts thereafter.

## 10. ANTI-INFLATION ACT

The Anti-Inflation Act, effective October 14, 1975, provides for the restraint of prices, profit margins, compensation and dividends. The company is subject to that portion of the legislation which restricts the payment of dividends. Under the legislation it appears that the amount of dividends which the company can declare and pay during the period from April 1, 1977 to October 13, 1977 is restricted to less than 12.8¢ per Class A share and 10.8¢ per Class B share based on shares outstanding at March 31, 1977.

## 11. AGREEMENT FOR SALE OF SUBSIDIARY

By agreement dated October 4, 1976, the corporation agreed to sell its subsidiary, R & H Products Ltd., to Fuji Photo Film Co. Ltd., Tokyo, subject to the fulfillment of certain conditions including the approval of the Federal Investment Review Agency, and this approval was refused. Subsequently, Fuji indicated its intention to re-apply to FIRA. If approval is given, and other conditions satisfied, it is anticipated that the transaction will be completed on or about the 30th day of November, 1977.

## Auditors' Report to the Shareholders

We have examined the consolidated balance sheet of Black Photo Corporation Limited as at March 31, 1977 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

Toronto, Ontario  
May 16, 1977

In our opinion, these consolidated financial statements present fairly the financial position of the company as at March 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand  
Chartered Accountants

Historical Financial Review	1977	1976	1975	1974	1973
Net Sales	\$23,359,172	\$20,913,497	\$17,943,460	\$15,160,185	\$11,020,480
Net Earnings	842,483	1,058,972	954,858	847,728	645,600
Earnings per Share	\$1.12*	99¢	89¢	79¢	61¢
Dividends paid	\$ 214,824	\$ 194,867	\$ 156,748	\$ 157,947	\$ 74,606
Current Assets	7,747,252	6,911,785	5,773,652	5,038,032	4,410,873
Current Liabilities	2,444,175	2,363,236	1,911,360	1,721,267	1,704,634
Total Assets	9,474,561	8,778,421	7,470,001	6,664,346	5,920,469

\*78¢ after extraordinary item.







